



SOCIAL SECURITY

Office of the Chief Actuary

August 31, 2011

The Honorable Sam Johnson
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Johnson:

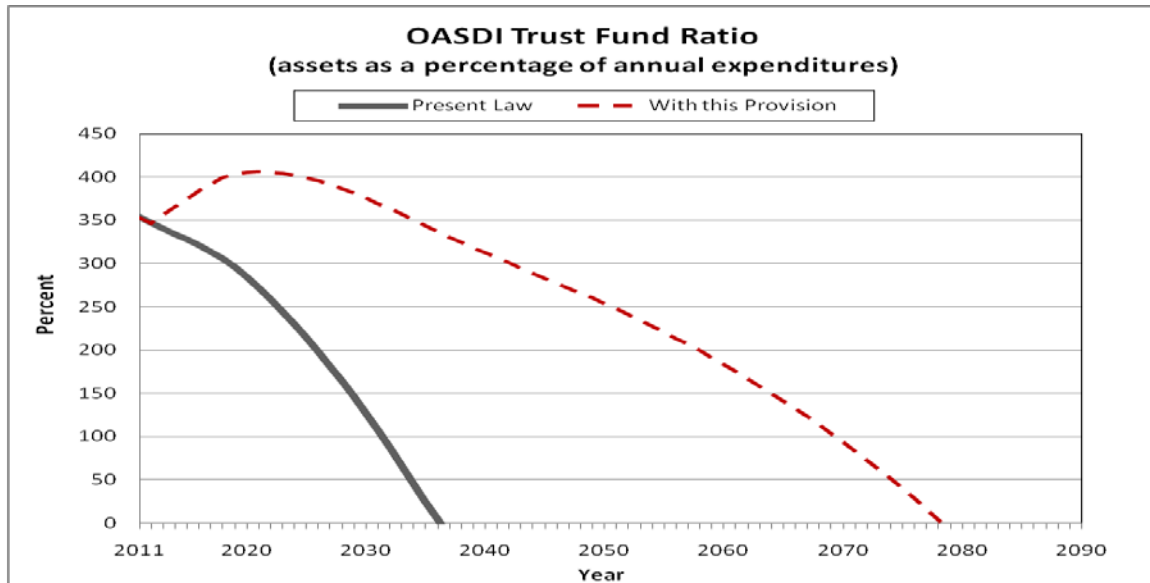
Thank you again for the opportunity to testify before the Committee on Ways and Means, Subcommittee on Social Security during the June 23, 2011 hearing on Social Security's finances. I hope the information that I and others provided regarding the implications of increasing revenue for the OASI and DI Trust Funds will prove to be helpful. Below I have restated the two questions you sent to me on August 22, 2011, and have provided answers.

- 1. Even if all covered earnings were taxed, similar to the Hospital Insurance payroll tax, and assuming all earnings subject to the payroll tax would be used in determining benefits, would sustainable solvency be achieved? Would sustainable solvency be achieved if the additional earnings subject to the payroll tax were not used in determining benefits?**

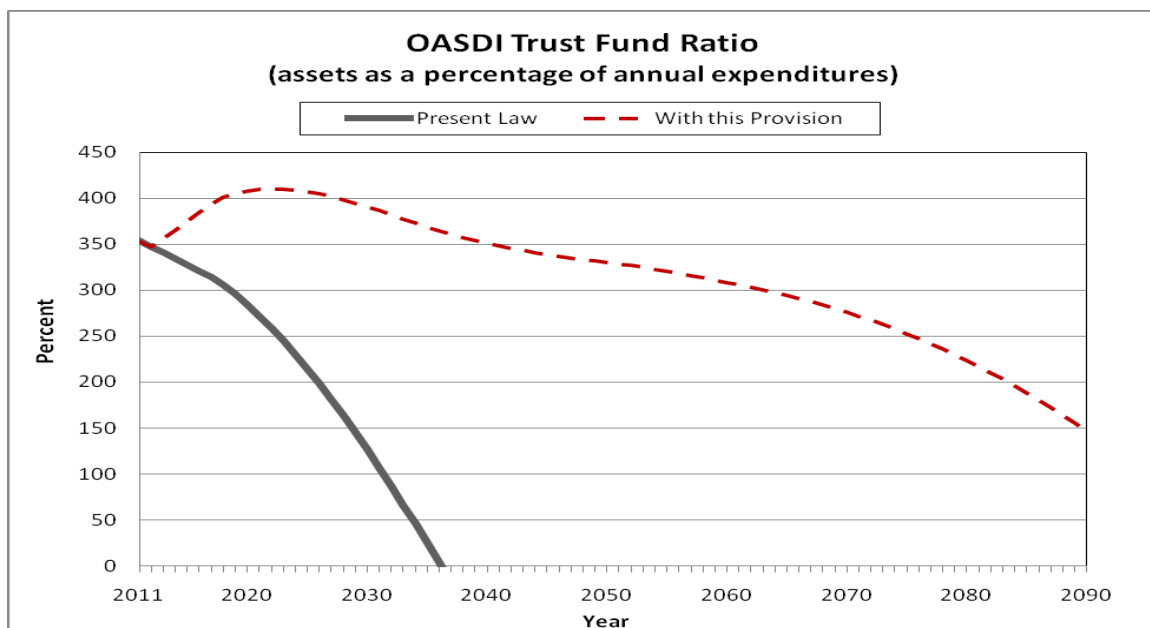
Answer: In 1983, 90 percent of all earnings for OASDI covered workers were under the taxable maximum. Over time, that percentage diminished because of a gradual increase in the concentration of earnings among the very highest earners. By 2008, about 83 percent of covered earnings were below the taxable maximum. While this percentage rose temporarily during the recent recession, we project that it will return to about 82.5 percent of covered earnings below the taxable maximum for 2020 and beyond.

If we were to eliminate the taxable maximum starting for all earnings in 2012 and include the additional taxable earnings in workers' earnings records for benefit credit, we project that the actuarial deficit of 2.22 percent of payroll under current law would be reduced to 0.32 percent of payroll for the 75-year period, 2011 through 2085. We further project that the exhaustion year for the combined OASI and DI Trust Funds would extend from 2036 under current law to 2078. While this would be a very substantial improvement in the actuarial status of the OASDI program, enacting this provision alone would not be sufficient to achieve sustainable solvency for the program. Sustainable solvency requires that trust fund assets be positive through the next 75 years, and that assets be stable or rising as a percent of annual cost at the end of the 75-year period. The graph below shows the effect that enactment

of this provision alone would have on the path of trust fund assets expressed as a percentage of annual program cost.



Alternatively, if we were to eliminate the taxable maximum starting for all earnings in 2012 and provide no additional benefit credit, we project that the actuarial deficit of 2.22 percent of payroll under current law would be eliminated, and we would have a positive actuarial balance of 0.11 percent of payroll. The combined OASI and DI Trust Fund assets would be positive throughout the next 75 years and assets would be at 180 percent of annual program cost at the end of the period. However, because the size of assets as a percent of annual program cost would be declining gradually at the end of the 75-year period, enactment of this provision alone would not meet the conditions for sustainable solvency. The graph below shows the projected path of trust fund assets expressed as a percent of annual cost under present law and assuming enactment of this provision alone.



It is important to note that any comprehensive proposal to restore sustainable solvency for Social Security will likely include several provisions: some that increase revenue, as this provision would, and others that lower cost. Either of the proposals described above would provide a substantial base for developing a comprehensive reform plan for OASDI, but additional provisions would be needed to meet the objective of sustainable solvency.

2. How does the tax on benefits add to the trust fund finances over time?

Answer: The 1983 Social Security Amendments made a portion of monthly OASDI benefits subject to personal income tax for 1984 and later. The law specified that the personal income tax revenue derived from taxing up to one-half of benefits would be transferred to the OASI and DI Trust Funds. The amount of benefits actually includable for personal income tax depends on the beneficiary's modified adjusted gross income (MAGI), which is equal to adjusted gross income (AGI) excluding any portion of benefits that is taxable, plus any non-taxable interest income. When MAGI plus one-half of actual OASDI benefits exceeds certain thresholds (\$25,000 for single taxpayers, \$32,000 for married couples filing jointly, but zero for married couples filing separately), one-half of the excess, but not more than one-half of the benefit itself, is declared taxable under personal income tax and is included in AGI.

For 2011, we estimate that the revenue from taxing Social Security benefits that is allocated to the combined OASI and DI Trust Funds is about 0.41 percent of payroll, or about 3.3 percent of total OASDI non-interest income for the year. However, because the thresholds described above have not been indexed or increased since 1983, the percent of beneficiaries subject to taxation of benefits has gone up and will continue to go up over time. By 2085, we project that this revenue will rise to 0.94 percent of taxable payroll, or 7.1 percent of total OASDI non-interest income. Thus, revenue from the taxation of OASDI benefits makes a significant and growing contribution toward the financing of these benefits.

Also, note that legislation enacted in 1994 expanded taxation of benefits by making up to 85 percent of OASDI benefits subject to personal income tax. However, the additional revenue due to this expansion is allocated not to the OASI and DI Trust Funds, but to the Medicare Hospital Insurance Trust Fund.

Again, I hope this further information will be helpful. If you have any further questions or need assistance in any way please let me know.

Sincerely,



Stephen C. Goss
Chief Actuary

cc:
Kim Hildred

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Congress of the United States
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COMMITTEE ON WAYS AND MEANS

WASHINGTON, DC 20515

SUBCOMMITTEE ON SOCIAL SECURITY

August 22, 2011

Stephen C. Goss
Chief Actuary
Office of the Chief Actuary
Social Security Administration
6401 Security Blvd.
Rm. 700 Altmeyer Bldg.
Baltimore, MD 21235

Dear Mr. Goss:

Thank you for your testimony before the Committee on Ways and Means, Subcommittee on Social Security during the June 23, 2011 hearing on Social Security's finances. In order to complete our hearing record, we would appreciate your response to the following questions:

1. Even if all covered earnings were taxed, similar to the Hospital Insurance payroll tax, and assuming all earnings subject to the payroll tax would be used in determining benefits, would sustainable solvency be achieved? Would sustainable solvency be achieved if the additional earnings subject to the payroll tax were not used in determining benefits?
2. How does the tax on benefits add to the trust fund finances over time?

We would appreciate your responses to these questions by September 5, 2011. Please send your response to the attention of Kim Hildred, Staff Director, Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, B-317 Rayburn House Office Building, Washington, D.C. 20515. In addition to a hard copy, please submit an electronic copy of your response in WordPerfect or Microsoft Word format to jessica.cameron@mail.house.gov.

Thank you for taking the time to answer these questions for the record. If you have any questions concerning this request, you may reach Kim at (202) 225-9263.

Sincerely,



SAM JOHNSON
Chairman